



**AbaQulusi Local Municipality
Annual financial statements
for the year ended 30 June 2015**

Planning by	Reviewed	Performed by	Final review

Client details

Client name: AbaQulusi Local Municipality
 Year end: 30 June 2015

Print details

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AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

Mayoral committee

Executive Mayor

Deputy Mayor

Speaker

Executive Committee Member

Executive Committee Member

Executive Committee Member

Executive Committee Member

Executive Committee Member

Executive Committee Member

Councillors

PN Khaba

ISM Hadebe

PM Mtshali

GM Dlamini

HE Heyns

MB Khumalo

AD Mkhulise

BL Zwane

BS Zwane

ZS Buthelezi

ME Masondo

XA Hlela

HV Khumalo

MM Kunene

MM Mavuso

AM Masondo

DJ Mahlase

MA Mazibuko

DP Mazibuko

M Mdlalose

CN Molefe

T Ndlovu

G Nkohl

SR Nkosi

HD Ntshangase

MS Nshangase

B Ntombela

SE Qwabe

TV Radebe

MJ Sibiya

TE Vilakazi

SM Vilakazi

MP Williams

SB Zwane

ME Zungu

RB Mhlungu

PP Mkhwanazi

SN Khumalo

JS Mncube

VF Nsibande

JW Mthembu

AM Nkosi

B Hancke

BA Mtshali

Grading of local authority

Grade 4

Low Capacity

Chief Finance Officer (CFO)

HA Mahomed

cfo@abaqulusi.gov.za

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

Accounting Officer

AB Mnikathi (Acting)

Bankers

ABSA Bank of South Africa Limited

Nedbank Bank of South Africa Limited

Auditors

Auditor General of South Africa

Attorneys

Cox and Partners

BM Thusini Attorneys

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is partly dependant on the community and state for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that AbaQulusi Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in the note titled Remuneration of Councillors of these Annual Financial Statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 6 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on the Municipalities behalf by:



AB Mnikathi (Acting)
Accounting Officer

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014
Assets			
Current Assets			
Inventories	9	11,942,933	14,432,125
Receivables from non-exchange transactions	10	52,049,106	41,970,329
VAT receivable	11	3,047,101	3,402,453
Receivables from exchange transactions	12	32,612,188	23,317,771
Cash and cash equivalents	13	36,636,073	53,151,479
		136,287,401	136,274,157
Non-Current Assets			
Investment property	4	25,389,741	23,233,240
Property, plant and equipment	5	1,507,475,748	1,541,495,056
Intangible assets	6	202,087	312,447
Heritage assets	7	3,854,571	3,854,571
		1,536,922,147	1,568,895,314
Total Assets		1,673,209,548	1,705,169,471
Liabilities			
Current Liabilities			
Finance lease obligation	14	2,856,534	4,785,845
Payables from exchange transactions	17	63,272,771	38,026,237
Consumer deposits	18	13,102,690	12,900,593
Unspent conditional grants and receipts	15	5,244,608	6,310,213
Other liability - Eskom	19	1,381,339	1,381,340
		85,857,942	63,404,228
Non-Current Liabilities			
Finance lease obligation	14	7,119	3,195,295
Employee benefit obligation	8	62,275,000	36,565,000
Provisions	16	55,632,121	53,121,529
Other liability - Eskom	19	-	1,381,339
		117,914,240	94,263,163
Total Liabilities		203,772,182	157,667,391
Net Assets		1,469,437,366	1,547,502,080

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014
Revenue			
Revenue from exchange transactions			
Service charges	22	224,762,667	209,493,156
Rental of facilities and equipment	34	1,297,331	1,188,729
Interest received - Sundry debtors	53	15,804	5,420
Licences and permits		4,063,131	4,414,582
Fair value gain		2,156,500	129,024
Actuarial gain on employee benefits	8	-	10,607,911
Other income	24	1,751,029	1,680,110
Land sales		-	2,301,071
Interest received - investment	29	3,150,190	4,369,190
Total revenue from exchange transactions		237,196,652	234,189,193
Revenue from non-exchange transactions			
Property rates	21	59,009,856	49,843,775
Property rates - penalties imposed	21	1,890,363	1,306,087
Donations received		-	28,453,532
Government grants & subsidies	23	164,684,334	163,051,447
Fines		3,684,951	9,374,998
Total revenue from non-exchange transactions		229,269,504	252,029,839
Total revenue	20	466,466,156	486,219,032
Expenditure			
Bulk purchases	36	129,184,533	122,108,105
Employee related costs	26	122,772,576	103,610,918
Remuneration of councillors	27	14,818,646	13,981,114
Finance Costs - Landfill Sites	16	2,510,591	3,202,424
Depreciation and amortisation	30	82,205,053	88,654,874
Impairment loss	31	1,203,071	-
Finance costs	32	457,972	671,061
Provision for doubtful debts	28	11,891,865	7,128,490
Post employment benefits	8	25,795,790	-
Repairs and maintenance		17,107,720	13,957,811
Contracted services	50	43,424,303	32,667,753
Grant expenditure	35	33,978,397	33,797,585
Hire of vehicle and office equipment		10,671,380	6,116,806
General Expenses	25	48,024,685	37,609,955
SARS Penalty		484,288	220,955
Total expenditure		544,530,870	463,727,851
Operating (deficit) surplus		(78,064,714)	22,491,181
Loss on disposal of assets and liabilities		-	(293,804)
(Deficit) surplus for the year		(78,064,714)	22,197,377

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2013	1,996,369,836	1,996,369,836
Profit/(Loss) for the year	22,197,377	22,197,377
Opening balance as previously reported at 01 July 2014	2,018,567,213	2,018,567,213
Prior period adjustment - refer note 41	(471,065,133)	(471,065,133)
Restated balance as at 01 July 2014	1,547,502,080	1,547,502,080
Surplus for the year	(78,064,714)	(78,064,714)
Total changes	(78,064,714)	(78,064,714)
Balance at 30 June 2015	1,469,437,366	1,469,437,366

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014
Cash flows from operating activities			
Receipts			
Sale of goods and services		292,460,739	261,969,436
Interest Income		3,165,993	4,374,610
Vat received		6,933,067	8,258,074
Grants and Subsidies		164,684,334	136,918,593
		-	-
		467,244,133	411,520,713
Payments			
Employee costs		(137,591,222)	(117,592,032)
Suppliers		(281,599,135)	(267,873,053)
Finance costs		(457,973)	(671,062)
		(419,648,330)	(386,136,147)
Net cash flows from operating activities	37	47,595,803	25,384,566
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(59,670,366)	(48,251,573)
Proceeds from sale of property, plant and equipment	5	676,643	-
Purchase of other intangible assets	6	-	(211,500)
Purchases of heritage assets	7	-	-
Net cash flows from investing activities		(58,993,723)	(48,463,073)
Cash flows from financing activities			
Repayment of other financial liabilities: Eskom Debt		-	(1,381,339)
Repayment of finance leases		(5,117,486)	(5,599,280)
Net cash flows from financing activities		(5,117,486)	(6,980,619)
Net increase/(decrease) in cash and cash equivalents		(16,515,406)	(30,059,126)
Cash and cash equivalents at the beginning of the year		53,151,479	83,210,605
Cash and cash equivalents at the end of the year	13	36,636,073	53,151,479

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	239,984,190	1,160,202	241,144,392	224,762,667	(16,381,725)	54.1
Rental of facilities and equipment	1,305,110	9,890	1,315,000	1,297,331	(17,669)	
Interest received- Sundry Debtors	-	15,000	15,000	15,804	804	
Licences and permits	5,427,700	(1,327,700)	4,100,000	4,063,131	(36,869)	
Fair Value Gain	-	-	-	2,156,500	2,156,500	54.2
Other income	4,352,600	3,937,510	8,290,110	1,751,029	(6,539,081)	54.3
Interest received - investment	4,254,390	(1,584,390)	2,670,000	3,150,190	480,190	54.4
Total revenue from exchange transactions	255,323,990	2,210,512	257,534,502	237,196,652	(20,337,850)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	55,650,000	100,000	55,750,000	59,009,856	3,259,856	54.5
Property rates - penalties imposed	1,400,000	500,000	1,900,000	1,890,363	(9,637)	
Government grants & subsidies	106,545,000	54,192,000	160,737,000	164,684,334	3,947,334	54.6
Transfer revenue						
Fines	2,240,180	(734,180)	1,506,000	3,684,951	2,178,951	54.7
Total revenue from non-exchange transactions	165,835,180	54,057,820	219,893,000	229,269,504	9,376,504	
Total revenue	421,159,170	56,268,332	477,427,502	466,466,156	(10,961,346)	
Expenditure						
Personnel	(116,434,320)	(4,674,016)	(121,108,336)	(122,772,576)	(1,664,240)	54.8
Remuneration of councillors	(15,495,110)	583,310	(14,911,800)	(14,818,646)	93,154	54.9
Contribution to landfill site rehabilitation provision	-	(3,028,260)	(3,028,260)	(2,510,591)	517,669	
Depreciation and amortisation	(20,769,520)	-	(20,769,520)	(82,205,053)	(61,435,533)	54.10
Impairment loss/ Reversal of impairments	-	-	-	(1,203,071)	(1,203,071)	
Finance costs	-	(650,000)	(650,000)	(942,260)	(292,260)	
Provision for doubtful debts	(1,602,000)	-	(1,602,000)	(11,891,865)	(10,289,865)	54.11
Contribution to Employee Retirement Benefits	-	(3,516,210)	(3,516,210)	(25,795,790)	(22,279,580)	
Repairs and maintenance	(28,802,970)	9,355,850	(19,447,120)	(17,107,720)	2,339,400	54.12
Bulk purchases	(144,156,500)	12,600,000	(131,556,500)	(129,184,533)	2,371,967	
Contracted Services	(32,442,730)	(7,339,344)	(39,782,074)	(43,424,303)	(3,642,229)	54.13
Grants and subsidies paid	(12,625,570)	(2,479,520)	(15,105,090)	(33,978,397)	(18,873,307)	
Finance Leases	-	(10,995,459)	(10,995,459)	(10,671,380)	324,079	
General Expenses	(81,047,750)	(3,282,393)	(84,330,143)	(48,024,685)	36,305,458	
Total expenditure	(453,376,470)	(13,426,042)	(466,802,512)	(544,530,870)	(77,728,358)	

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Deficit before taxation	(32,217,300)	42,842,290	10,624,990	(78,064,714)	(88,689,704)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(32,217,300)	42,842,290	10,624,990	(78,064,714)	(88,689,704)	

CAPEX	Approved Budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Total Capital Expenditure	56,394,000	(2,231,000)	54,163,000	49,295,253	4,867,747

Reasons with a variances of 10% of the actual amount has been disclosed in note 53.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, unless otherwise stated.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Revenue Recognition

Accounting Policy 1.15 & 1.16 on Revenue from Exchange Transactions and Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality. In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-exchange Transactions. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgement by management.

Impairment of Financial Assets

Accounting Policy 1.7 Financial Instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate..

Useful lives of Property, Plant and Equipment ("PPE")

As described in Accounting Policies 1.4 and 1.5, the municipality depreciates/amortises its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

Impairment: Write down of Property, Plant and Equipment, Intangible assets and Inventories

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Defined Benefit Plan Liabilities

As described in Accounting Policy 1.13 Employee Benefits, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Longservice Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25 Employee Benefits. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Note 7 to the financial statements.

Going concern assumption

The financial statements have been prepared on a going concern basis.

Offsetting

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

Provisions

Provisions have been raised by the municipality. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.3 Investment property (continued)

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use

Subsequent measurement

Fair value model

Investment property is measured using the fair value model. This entails determining the fair value of investment properties on a regular basis. To the extent that the fair value model is applied investment property is not depreciated. Fair value gains / losses that result from the revaluation are recognised in the Statement of Financial Performance

Impairments

The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance

Derecognition

An Investment Property is derecognised when there is a disposal or no future economic benefits or service potential are to be derived from the property. All gains or losses, which result from the derecognition, are recognised in the Statement of Financial Performance.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent Measurements

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated, using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives. Depreciation only commences when the asset is available for use, unless stated otherwise.

The useful lives of items of property, plant and equipment have been assessed as follows:-

	Item useful life range
Infrastructure	
Roads and stormwater	5-80 years
Electricity	3-50 years
Sanitation	15-100 years
Water	5-80 years
Housing	3-50 years
Landfill sites	15-50 years
Community	
Sport and recreational facilities	5 - 50 years
Cemeteries	5 - 50 years
Halls	5 - 50 years
Libraries	5 - 50 years
Parks	5 - 50 years
Fire / Ambulance stations	5 - 50 years
Clinics	5 - 50 years
Sport fields	15 - 30 years
Stadium	5- 50 years
Other	

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Property, plant and equipment (continued)

Transport assets	5-15 years
Machinery and equipment	2-15 years
Computer equipment	3-7 years
Office equipment	3-10 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Capital Work in Progress

Capital work in progress is stated at historical cost. Depreciation only commences when the asset is available for use.

Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality.

Derecognition of Property, Plant and Equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is included in surplus or deficit for the year when the item is derecognised. Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

The municipality has identified all its capital assets, excluding Investment Property, as non-cash generating assets as it's the municipality's view that the primary objective of these assets are to provide a service and not to generate a commercial return.

Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

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1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

An intangible asset shall be measured initially as cost. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition shall be measured at its fair value as at that date. The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

An intangible asset shall be de-recognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any and the carrying amount of the asset. It shall be recognised in surplus or deficit when the asset is derecognised.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Computer software, internally generated	5 -10 years
Computer software, other	5 -10 years

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1.5 Intangible assets (continued)

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.6 Heritage assets

Recognition of Assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

A heritage asset is further recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the cost of fair value of the asset can be measured reliably.

A Heritage asset that qualifies for recognition as an asset shall be initially measured at its cost. Where a heritage asset is acquired through a non-exchange transaction will it be measured at its fair value as at the date of acquisition and is carried at its cost less any accumulated impairment losses. In instances where cost is not determinable, the municipality has taken advantage of the transitional provisions.

Heritage assets are not depreciated but the municipality will assess at each reporting date based on external and internal sources of information whether there is an indication that it may be impaired. Transfers from heritage assets shall be made when and only when the particular asset no longer meets the definition of a heritage asset. Likewise transfer to heritage assets shall be made when and only when the asset meets the definition of a heritage asset.

Heritage assets which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives, as reflected below:

Memorials & Statues	- indefinite life
Heritage Sites	- indefinite life
Museums	- indefinite life
Art Works	- indefinite life

Although a heritage asset is not depreciated, the asset is assessed for impairment at each reporting date to disclose whether there is an indication that it may be impaired

De-recognition of Asset

The carrying amount of a heritage is de-recognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the de-recognition, of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

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1.7 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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1.7 Financial Instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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Accounting Policies

1.7 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

AbaQulusi Local Municipality

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Accounting Policies

1.7 Financial Instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

AbaQulusi Local Municipality

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Accounting Policies

1.8 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.10 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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1.11 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.11 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Employee benefits

GRAP 25 on employee benefits is to provide accounting principles for amounts or benefits due to employees, their spouses or third parties when employees have rendered services to the municipality, and the rendering of those services entitles employees to certain benefits. This standard prescribes similar requirements to those in terms of IAS 19: Employee Benefits which the municipality has been following in the prior year. Since IAS 19 has been applied in developing the current accounting policy, no significant impact on the financial statements of the Municipality is expected.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

AbaQulusi Local Municipality

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Accounting Policies

1.14 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, the municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

AbaQulusi Local Municipality

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Accounting Policies

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, Service Fees

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

Value Added Tax (VAT):

The municipality accounts for VAT on the payments basis.

Fines

As per IGRAP1 assessing and recognising impairment is an event that takes place subsequent to initial recognition of revenue charged. A provision is raised accordingly when the entity assess the probability of revenue collection. The provision for traffic fines has been calculated based on the historical collection rate.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.17 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.19 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.22 Budget Information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 01/07/2014 to 30/06/2015.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.23 Related parties

A related party is person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party or vice versa or an entity that is subject to common control or joint control.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 Cash and Cash Equivalents

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.25 Changes in accounting policies, estimates and errors

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening. The provisions of IGRAP 1 have been applied prospectively in line with IGRAP 1.

1.26 Events after the reporting date

Events after the reporting date that have been classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.27 Comparative Information

Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of Grap does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.28 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40 to the annual financial statements.

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

2015

2014

2. Changes in accounting estimate

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice. The basis of preparation is consistent with the prior year except for the change in accounting estimate relating to Intangible Assets. During the current financial year intangible assets (specifically those relating to software) reached a remaining useful life of 1. This implies that the software would be fully depreciated at year end, and have a zero carrying value at 30 June 2015. As the software is still in use at the municipality, it was deemed necessary to increase the remaining useful life of these items to 2. The depreciation for the current year decreased by R 64 496.

Statement of financial position

Intangible Assets		
Previously stated	137,591	-
Adjustment	64,496	-
	202,087	-

Statement of Financial Performance

Intangible Assets - Amortisation		
Previously stated	174,856	-
Adjustment	(64,496)	-
	110,360	-

3. New standards and Interpretations

3.1 Standards and Interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

Standard/ Interpretation:

	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	No effective date	No significant impact is expected.
• GRAP32: Service Concession Arrangements: Grantor	No effective date	Currently not relevant to the municipality.
• GRAP108: Statutory Receivables	No effective date	Currently not relevant to the municipality.
• Grap 109 Accounting by Principals and Agents	No effective date	Currently not relevant to the municipality.

4. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	25,389,741	-	25,389,741	23,233,240	-	23,233,240

AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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4. Investment property (continued)

Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Total
Investment property	23,233,240	2,302,010	25,389,741

Reconciliation of investment property - 2014

	Opening balance	Fair value adjustments	Total
Investment property	19,504,262	3,728,978	23,233,240

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was 30 June 2015. Revaluations were performed by an independent valuer of I @ Consulting (Pty) Ltd. I@ Consulting (Pty) Ltd are independent to the municipality and have experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	146,400,100	-	146,400,100	146,400,100	-	146,400,100
Buildings	43,078,504	(27,889,995)	15,188,509	43,078,504	(26,415,536)	16,662,968
Other Property Solid Waste (Landfill Site)	47,213,757	(31,475,838)	15,737,919	47,213,757	(23,606,879)	23,606,878
Motor vehicles	23,423,221	(23,423,220)	1	23,423,221	(19,359,192)	4,064,029
Office equipment	845,855	(626,355)	219,500	845,855	(404,812)	441,043
Infrastructure	2,599,978,327	(1,430,455,848)	1,169,522,679	2,585,444,577	(1,367,114,793)	1,218,329,784
Community	190,996,747	(111,385,067)	79,611,680	190,996,747	(105,981,613)	85,015,134
Work in Progress	79,052,067	-	79,052,067	44,790,538	-	44,790,538
Other property, plant and equipment	10,867,008	(9,123,715)	1,743,293	10,989,508	(8,804,927)	2,184,581
Total	3,141,855,586	(1,634,379,838)	1,507,475,748	3,093,182,807	(1,551,687,751)	1,541,495,056

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	146,400,100	-	-	-	-	-	146,400,100
Buildings	16,662,968	-	-	-	(1,474,459)	-	15,188,509
Other Property Solid Waste (Landfill Site)	23,606,878	-	-	-	(7,868,959)	-	15,737,919
Motor vehicles	4,064,029	-	-	-	(4,064,029)	-	-
Office equipment	441,043	-	-	-	(221,543)	-	219,500
Infrastructure	1,218,329,784	14,533,746	-	-	(62,192,840)	(1,148,011)	1,169,522,679
Community	85,015,134	-	-	-	(5,348,396)	(55,060)	79,611,680
Work in progress	44,790,539	44,636,641	-	(10,375,113)	-	-	79,052,067
Other property, plant and equipment	2,184,581	499,979	(16,799)	-	(924,468)	-	1,743,293
Total	1,541,495,056	59,670,366	(16,799)	(10,375,113)	(82,094,694)	(1,203,071)	1,507,475,748

AbaQulusi Local Municipality
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Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Adjustments	Transfers	Depreciation	Total
Land	141,375,100	-	-	5,025,000	-	-	146,400,100
Buildings	18,137,426	-	-	-	-	(1,474,458)	16,662,968
Other Property Solid Waste (Landfill Site)	47,213,757	-	-	-	-	(23,606,879)	23,606,878
Motor vehicles	8,778,703	-	-	-	-	(4,714,674)	4,064,029
Office equipment	251,183	347,609	-	-	-	(157,749)	441,043
Infrastructure	1,257,779,672	22,343,476	(293,804)	-	-	(61,499,560)	1,218,329,784
Community	90,363,530	-	-	-	-	(5,348,395)	85,015,134
Work in Progress	18,194,804	47,860,329	-	-	(21,264,596)	-	44,790,537
Other property, plant and equipment	2,778,393	275,177	-	-	-	(868,989)	2,184,581
	1,584,872,568	70,826,591	(293,804)	5,025,000	(21,264,596)	(97,670,704)	1,541,495,054

6. Intangible assets

	2015		2014	
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Cost / Valuation	Accumulated amortisation and accumulated impairment
Intangible assets	1,501,427	(1,299,340)	202,087	1,501,427
				(1,188,980)
				312,447

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Intangible assets	312,447	(110,360)	202,087

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6. Intangible assets (continued)

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Intangible assets	257,985	211,500	(157,038)	312,447

The intangible asset category above relates to software.

7. Heritage assets

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical Buildings	2,858,229	-	2,858,229	2,858,229	-	2,858,229
Works of Art	83,810	-	83,810	83,810	-	83,810
Antiquities	528,518	-	528,518	528,518	-	528,518
Stamps	1,350	-	1,350	1,350	-	1,350
Rare Books	14,364	-	14,364	14,364	-	14,364
Monuments and Memorials	368,300	-	368,300	368,300	-	368,300
Total	3,854,571	-	3,854,571	3,854,571	-	3,854,571

Reconciliation of heritage assets 2015

	Opening balance	Closing Balance
Historical Building	2,858,229	2,858,229
Works of Art	83,810	83,810
Antiquities	528,518	528,518
Stamp Collection	1,350	1,350
Rare Books	14,364	14,364
Monuments and Memorials	368,300	368,300
	3,854,571	3,854,571

Reconciliation of heritage assets 2014

	Opening balance	Adjustment to Cost	Closing Balance
Historical Building	2,858,229	-	2,858,229
Works of Art	106,810	(23,000)	83,810
Antiquities	107,964	420,554	528,518
Stamps	1,000	350	1,350
Rare Books	1,900	12,464	14,364
Monuments and Memorials	-	368,300	368,300
Heritage Assets	-	-	-
	3,075,903	778,668	3,854,571

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7. Heritage assets (continued)

The municipality has complied fully with GRAP 103. The municipality appointed i @ Consulting (Pty) Ltd as the respective service provider to perform a full verification of heritage assets as well as to assign values to all heritage assets for the financial year ended 30 June 2015. As per Directive 7 a list of all Heritage Assets has been included in the Fixed Asset Register of the municipality. This list is available for viewing at the main offices of the municipality.

The categories of Heritage Assets include:

Works of Art,

Antiquities

Monuments and Memorials

Stamps Collections and Collections of Rare Books

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8. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Post employment medical benefits	(56,225,000)	(31,543,000)
Long Service Award	(6,050,000)	(5,022,000)
	(62,275,000)	(36,565,000)

Net expense recognised in the statement of financial performance

Current service cost	1,541,000	2,706,775
Interest cost	3,187,000	3,982,307
Actuarial (gains)/losses	23,201,000	(15,093,993)
Settlement	(2,133,210)	(2,203,000)
	25,795,790	(10,607,911)

Post-employment medical benefits

Assumptions used at the reporting date:

Discount rates used	9.35 %	8.94 %
Maximum subsidy increase	8.90 %	3.53 %
Healthcare cost inflation	8.90 %	8.05 %
Net discount rate	0.41 %	0.82 %

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8. Employee benefit obligations (continued)

Post retirement health care benefit liability.

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. The most recent actuarial valuations of planned assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2015 by PricewaterhouseCoopers Actuarial Risk & Quants ("PwC ARQ").

Methodology

GRAP 25 requires that the Projected Unit Credit Method be used to determine the present value of the defined benefit obligation.

Rationale for the economic assumptions

Discount rate

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting our best-estimate discount rate assumption. The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the yield on the BESA zero-coupon yield curve with a term of 17 years, the expected duration of the liability based on the current membership data, as at 30 June 2015.

Healthcare cost inflation

In the past, healthcare cost inflation has typically exceeded the Consumer Price Index ("CPI") by a margin of 1% to 2%.

The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the healthcare cost inflation assumption.

The CPI inflation assumption using this methodology is 6.90% as at 30 June 2015. Thus, the healthcare cost inflation has been set as 8.90% at the valuation date, after allowing for a margin of 2% over CPI inflation.

Maximum subsidy increase

The maximum subsidy increase assumption was set equal to the healthcare cost inflation assumption as described above. No other post retirement benefits are provided by the municipality.

Net discount rate

The relationship between the gross discount rate and healthcare cost inflation rate is more important than the individual values. The net discount rate is also a highly significant assumption in the respective valuations.

The future medical benefits are projected in line with the healthcare cost inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate.

The net discount rate therefore depends on the relationship between the gross discount rate and the healthcare cost inflation rate respectively. Using the gross discount and healthcare cost inflation rates as shown above, the resulting net discount rate is 0.41% (calculated as $(1 + \text{discount rate}) / (1 + \text{healthcare cost inflation rate}) - 1$) for the 30 June 2015 valuation.

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8. Employee benefit obligations (continued)

Summary of membership data used in the valuation	30 June 2015	30 June 2015	30 June 2014	30 June 2014
- Current Employees	Males	Females	Males	Females
Number of current employees	143	84	137	84
Average age of employees	43	43	43	43
Average years of past service	10	9	9	9
Average total monthly premium of Principal Members (R)*	1,943	1,903	1,793	1,768
Average total monthly premium of Adult dependants (R)*	1,431	1,482	1,313	1,355
	-	-	-	-

Summary of membership data used in the valuation	30 June 2015	30 June 2015	30 June 2014	30 June 2014
- Continuation	Males	Females	Males	Females
Number of continuation members	18	31	17	30
Average age of continuation members	72	76	71	76
Actual percentage married (%)	89	3	88	3
Average total monthly premium of Principal members (R)*	3,543	3,556	3,190	3,383
Average total monthly premium of adult dependants (R)*	2,410	2,410	2,163	2,296
	-	-	-	-

Long Service Awards

Gross discount rate	8.40%	7.96%
Salary inflation	8.10%	7.33%
Net discount rate	0.28%	0.59%

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8. Employee benefit obligations (continued)

Long service awards

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year.

The most recent actuarial valuations of planned assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2015 by PricewaterhouseCoopers Actuarial Risk & Quants ("PwC ARQ").

Methodology

GRAP 25 requires that the Projected Unit Credit Method be used to determine the present value of the defined benefit obligation.

Discount rate

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting our best-estimate discount rate assumption. The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations. The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 7 years, the expected duration of the liability based on the current membership data, as at 30 June 2015.

Salary inflation

In the past, salary inflation has typically exceeded the Consumer Price Index ("CPI") by a margin of around 2%. For the previous valuation, the CPI assumption was based on the relationship between R208 conventional and R197 index-linked government bonds. A further 1% margin was added to get to the assumed salary inflation rate, along with a merit increase scale.

The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption methodology has been updated to reflect the use of the real and nominal yield curves to determine the inflation assumption as this provides more accurate information on the outlook on inflation at specific durations. Therefore, the best estimate inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the salary inflation assumption.

The CPI inflation assumption using this methodology is 6.10% as at 30 June 2015. Thus, the salary inflation has been set as 8.10% at the valuation date, after allowing for a margin of 2% over CPI inflation.

Net discount rate

The relationship between the gross discount rate and salary inflation rates are more important than their individual values. The net discount rate is also a highly significant assumption in the respective valuations. The future long service awards are projected in line with the salary inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate. The net discount rate therefore depends on the relationship between the gross discount rate and the salary inflation rate respectively. Using the gross discount and salary inflation rates as shown above, the resulting net discount rate is 0.28% (calculated as $(1 + \text{discount rate}) / (1 + \text{salary inflation rate}) - 1$) for the 30 June 2015 valuation.

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8. Employee benefit obligations (continued)

Summary of membership data used in the valuation - Current Employees	30 June 2015 - Males	30 June 2015 - Females	30 June 2014 - Males	30 June 2014 - Females
Number of current employees	321	133	322	118
Average age of employees	46	43	47	44
Average years of past service	11	10	13	12
Average annual salary	132,203	142,172	102,532	119,746
	-	-	-	-

9. Inventories

Electricity Inventory	1,993,935	3,966,626
Water Inventory	7,952,062	8,602,944
Rates and General	1,996,936	1,862,555
	11,942,933	14,432,125

10. Receivables from non-exchange transactions

Consumer debtors-rates	36,905,200	33,151,241
Provision for traffic fines	(4,967,970)	(4,991,654)
Sundry Debtors	12,593,190	6,268,213
Other receivables	421,587	398,145
Traffic Fine Debtors	7,097,099	7,144,384
	52,049,106	41,970,329

11. VAT receivable

VAT	3,047,101	3,402,453
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Vat is payable on the payments basis. Amount claimable to SARS is disclosed in the Vat control account where VAT 201s. and Vat refunds are offset and amounts due or payable to SARS is disclosed

12. Receivables from exchange transactions

Gross balances

Electricity	10,394,830	7,886,353
Water	29,550,364	16,059,239
Sewerage	14,077,234	11,499,459
Refuse	9,989,183	8,230,712
VAT	8,534,211	10,878,743
	72,545,822	54,554,506

Less: Allowance for impairment

Electricity	(3,083,724)	(2,290,747)
Water	(13,563,009)	(9,710,697)
Sewerage	(10,660,674)	(8,618,083)
Refuse	(7,880,226)	(6,180,947)
Value Added Taxation	(4,746,001)	(3,917,678)
Other	-	(518,583)
	(39,933,634)	(31,236,735)

AbaQulusi Local Municipality

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Figures in Rand	2015	2014
12. Receivables from exchange transactions (continued)		
Net balance		
Electricity	7,311,106	5,595,606
Water	15,987,355	6,348,542
Sewerage	3,416,560	2,881,376
Refuse	2,108,957	2,049,765
Value Added Taxation	3,788,210	(3,917,678)
Other	-	10,360,160
	32,612,188	23,317,771
Electricity		
Current (0 -30 days)	6,163,773	6,055,163
31 - 60 days	621,453	514,239
61 - 90 days	241,899	376,760
91 - 120 days	114,998	122,297
121 - 365 days	69,060	80,605
> 365 days	99,923	-
	7,311,106	7,149,064
Water		
Current (0 -30 days)	2,557,657	2,921,337
31 - 60 days	1,439,335	1,216,981
61 - 90 days	1,317,378	778,269
91 - 120 days	951,971	827,273
121 - 365 days	1,442,859	604,682
> 365 days	8,278,155	-
	15,987,355	6,348,542
Sewerage		
Current (0 -30 days)	1,441,164	1,289,672
31 - 60 days	673,497	619,066
61 - 90 days	569,144	529,040
91 - 120 days	263,833	229,310
121 - 365 days	239,894	214,288
> 365 days	229,028	-
	3,416,560	2,881,376
Refuse		
Current (0 -30 days)	693,316	939,179
31 - 60 days	415,275	435,298
61 - 90 days	385,371	368,770
91 - 120 days	178,959	162,750
121 - 365 days	165,145	143,768
> 365 days	270,891	-
	2,108,957	2,049,765
Value Added Tax		
Current (0 -30 days)	1,575,050	(1,632,915)
31 - 60 days	444,417	(409,061)
61 - 90 days	361,726	(317,856)
91 - 120 days	212,793	(348,234)
121 - 365 days	274,741	(1,209,612)
> 365 days	919,483	7,652,094
	3,788,210	3,734,416

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12. Receivables from exchange transactions (continued)

In the determination of the amounts deemed to be impaired at financial year end, the municipal impairment policy was applied as follows:

The value of the provision is determined as follows:

0% of consumer debt greater than 0 days but less than or equal to 90 days

50% of consumer debt greater than 91 days but less than or equal to 120 days

50% of consumer debt greater than 121 days but less than or equal to 150 days

100% of consumer debt greater than 151 days

The calculation for impairment excludes property rates, rates penalties, rates collection charges, legal fees, and all Government debt

13. Cash and cash equivalents

Cash and cash equivalents consist of the following:

Cash on hand and Petty cash	3,820	6,297
Bank balances	10,561,309	11,502,240
Short-term deposits	26,070,944	41,642,942
	36,636,073	53,151,479

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA Bank - Cheque Account - 1005001109	1,574,163	11,366,984	5,499,232	1,599,057	11,420,569	5,120,015
Nedbank - Current Account - 1067379770	8,811,235	81,671	-	8,962,252	81,671	-
Total	10,385,398	11,448,655	5,499,232	10,561,309	11,502,240	5,120,015

Short term deposits

Absa 9195460586	531,504	501,623
Absa 9229810136	2,252,646	2,166,834
Absa 9061060389	927,707	918,480
Standard Bank 068461763-003	11,769,354	11,142,288
Investec 1100471224451	-	11,424,957
Nedbank 037165020780	494,566	-
Standard Bank 068461763-005	50,365	5,867,922
Sims Munvry	1,896,555	1,817,474
Absa 5598098427	1,489,830	1,489,830
Absa 9122861337	67,311	64,984
Absa 9229810534	764,125	735,017
First National Bank 74355032547	5,826,981	5,513,533
	26,070,944	41,642,942

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14. Finance lease obligation		
Minimum lease payments due		
- within one year	2,856,534	4,785,844
- in second to fifth year inclusive	7,119	3,195,295
Present value of minimum lease payments	2,863,653	7,981,139
Non-current liabilities	7,119	3,195,295
Current liabilities	2,856,534	4,785,845
	2,863,653	7,981,140

The leases relate to vehicles and office equipment and have been recognised at the lower of the present value of minimum lease payments and fair value at the date of inception.

The average lease term for leases is 3 years and a discounted rate of 8 % has been used for the purposes of amortisation of the lease balance.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	38,830	38,830
Gijima Grant	-	55,518
EDI Grant	229,850	229,850
Land Use Management Grant	60,000	60,000
Provincial Housing Grant	446,564	-
Municipal Infrastructure Grant	3,166	3,166
Upgrade Billing Emondlo	-	29,045
Performance Management System	225,383	225,383
Housing Grant	-	3,264,066
COGTA Grant : Thusong Centre	2,569	716,222
Emergency Repair Grant (COGTA)	-	21,441
Museum	695,470	457,797
Library Grant	947,676	454,595
Small Town Rehabilitation	108,100	229,300
Cecil Emmett Sports Grant	2,100,000	525,000
Upgrade Cecil Emmett Sports Grant	337,000	-
Scheme Support Grant	50,000	-
Environmental Health Grant		
	5,244,608	6,310,213

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16. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	53,121,529	2,510,591	55,632,121

Reconciliation of provisions - 2014

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	49,919,105	3,202,424	53,121,529

Environmental rehabilitation provision

The determination of the costs required for the rehabilitation of the Vryheid eMondlo and Louwsburg landfill sites was done as at June 2015. The Vryheid landfill site will operate until 2045 while the other sites have ceased operations but will still require rehabilitation. The calculated cost estimates were escalated using CPI.

Vryheid	51,087,597	50,044,804
Emondlo	3,089,255	1,344,215
Louwsburg	1,455,269	1,732,511
	55,632,121	53,121,530

17. Payables from exchange transactions

Trade payables	47,317,412	25,016,292
Unallocated deposits	1,000,423	415,046
Halls Deposits	65,098	53,080
Leave payment accrual	9,086,871	8,016,752
Retentions	5,802,967	4,525,067
	63,272,771	38,026,237

18. Consumer deposits

Electricity	12,005,571	11,884,105
Water	1,097,119	1,016,488
	13,102,690	12,900,593

19. Other liability - Eskom

Other liabilities relate to a loan agreement with Eskom.

The loan carry's no interest.

Eskom Liability

Current Portion	1,381,339	1,381,340
Non - Current Portion	-	1,381,340
	1,381,339	2,762,680

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20. Revenue		
Service charges	224,762,667	209,493,156
Rental of facilities and equipment	1,297,331	1,188,729
Interest received-sundry debtors	15,804	5,420
Licences and permits	4,063,131	4,414,582
Fair valuation gain	2,156,500	129,024
Gain on post retirement	-	10,607,911
Other income	1,751,029	1,680,110
Land sales	-	2,301,071
Interest received - investment	3,150,190	4,369,190
Property rates	59,009,856	49,843,775
Property rates - penalties imposed	1,890,363	1,306,087
Donations received	-	28,453,532
Government grants & subsidies	164,684,334	163,051,447
Fines	3,684,951	9,374,998
	466,466,156	486,219,032

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	224,762,667	209,493,156
Rental of facilities and equipment	1,297,331	1,188,729
Interest received-sundry debtors	15,804	5,420
Licences and permits	4,063,131	4,414,582
Fair valuation gain	2,156,500	129,024
Gain on post retirement benefits	-	10,607,911
Other income	1,751,029	1,680,110
Land sales	-	2,301,071
Interest received - investment	3,150,190	4,369,190
	237,196,652	234,189,193

The amount included in revenue arising from non-exchange transactions is as follows:

Property Rates		
Property rates	59,009,856	49,843,775
Property rates - penalties imposed	1,890,363	1,306,087
Donations received	-	28,453,532
Transfer revenue		
Government grants & subsidies	164,684,334	163,051,447
Fines	3,684,951	9,374,998
	229,269,504	252,029,839

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21. Property rates		
Rates received		
Property rates	60,975,779	51,579,030
Rates Rebate	(704,856)	(559,136)
Rates Reduction	(1,261,067)	(1,176,119)
	59,009,856	49,843,775
Property rates - penalties imposed	1,890,363	1,306,087
	60,900,219	51,149,862
Valuations		
Residential	3,395,910,004	3,375,231,004
Commercial	1,046,036,025	1,038,611,025
State	677,087,026	742,517,026
Donation: Sport & Welfare	35,150,000	35,150,000
Schools: Non Government	38,830,000	1,930,000
Vacant land	76,017,100	78,977,100
Non Taxable	650,771,600	691,767,608
Public Service Infrastructure	10,490,000	10,350,000
S P L	2,080,000	2,080,000
Agriculture	2,244,371,200	2,277,822,450
	8,176,742,955	8,254,436,213

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on monthly basis with the final date for payment being the 9th of every month. Interest at prime plus 1% per annum is levied on outstanding rates.

Rates are charged on market value of Land and Buildings	Approved 2013/2014 6%	Proposed 2014/2015 5.6%
All registered properties on which a single dwelling has been erected and used as such, excluding properties registered in the name of the State or State Departments	0.0061798	0.0065259
All erven registered in the name of the Municipality excluding properties used for residential purposes	0.0000000	0.0000000
Business & Commercial	0.0154495	0.0163147
Industrial Property	0.0154495	0.0163147
Vacant land	0.0154495	0.0163147
Agricultural	0.0015450	0.00163152
Specified public benefit activity	0.0015450	0.00163152
Specialised Non-Market properties	0.0015450	0.00163152

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22. Service charges		
Refuse removal	15,945,586	13,952,911
Sale of electricity	146,379,185	140,204,417
Sale of water	36,524,166	36,128,073
Sewerage and sanitation charges	25,913,730	19,207,755
	224,762,667	209,493,156

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23. Government grants and subsidies		
Operating grants		
Equitable share	95,434,000	85,564,797
Municipal Systems Improvement Grant	934,000	890,000
Municipal Assistance Programme (MAP) Grant	-	426,853
EDI Grant	55,518	-
Expanded Public Works Programme Grant	1,376,000	1,000,000
Emergency Repair Water Grant (COGTA)	713,653	3,834,061
Finance Management Grant	1,600,000	1,550,000
Provincial Housing Grant	88,730	-
Tourism Operating Grant ZDM	-	50,000
Integrated National Electrification Programme Grant	9,000,000	13,262,729
Cecil Emmet Sports Grant	121,200	60,600
Performance Management System	29,045	-
Small Town Rehabilitation Grant	7,006,919	21,609,197
Scheme Support Grant	13,000	-
Library Grant (operating)	2,462,326	2,134,203
Cyber Cadet Library Grant	252,000	240,000
Museum Grant (operating)	172,441	-
	119,258,832	130,622,440
Capital grants		
Municipal Infrastructure Grant	40,911,436	29,906,643
COGTA Grant - Thusong Centre	4,514,066	2,522,364
	45,425,502	32,429,007
	164,684,334	163,051,447
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. This grant is unconditional that supplements the revenue that municipalities can raise themselves.		
Equitable Share		
Current year receipts	95,434,000	85,564,797
Current year expenditure	(95,434,000)	(85,564,797)
	-	-
Municipal Systems Improvement Grant		
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(934,000)	(890,000)
	-	-
Integrated National Electrification Programme Grant		
Balance unspent at beginning of year	-	4,262,728
Current-year receipts	9,000,000	9,000,000
Less: expenditure for rolled over funds conditions met transferred to revenue	-	(4,262,728)
Conditions met - transferred to revenue	(9,000,000)	(9,000,000)
	-	-
Gijima Grant		
Balance unspent at beginning of year	38,830	38,830
Land Use Management Grant		

AbaQulusi Local Municipality

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Figures in Rand	2015	2014
23. Government grants and subsidies (continued)		
Balance unspent at beginning of year	229,850	229,850
Provincial Housing Grant		
Balance unspent at beginning of year	60,000	60,000
Current-year receipts	88,730	-
Conditions met - transferred to revenue	(88,730)	-
	60,000	60,000
Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	7,124,643
Current-year receipts	41,358,000	22,782,000
Less: expenditure for rolled over funds conditions met transferred to revenue	-	(7,124,643)
Conditions met - transferred to revenue	(40,911,436)	(22,782,000)
	446,564	-
Finance Management Grant		
Current-year receipts	1,600,000	1,550,000
Conditions met - transferred to revenue	(1,600,000)	(1,550,000)
	-	-
Upgrade Billing Emondlo		
Balance unspent at beginning of year	3,166	3,166
Performance Management Systems		
Balance unspent at beginning of year	29,045	29,045
Conditions met - transferred to revenue	(29,045)	-
	-	29,045
Housing Grant		
Balance unspent at beginning of year	225,383	225,383
COGTA Grant: Thusong Centre		
Balance unspent at beginning of year	3,264,066	5,786,430
Current-year receipts	1,250,000	-
Conditions met - transferred to revenue	(4,514,066)	(2,522,364)
	-	3,264,066
Emergency Repair Grant (COGTA)		
Balance unspent at beginning of year	716,222	4,550,283
Conditions met - transferred to revenue	(713,653)	(3,834,061)
	2,569	716,222
Tourism Operation Grant ZDM		

AbaQulusi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
23. Government grants and subsidies (continued)		
Current-year receipts	-	50,000
Conditions met - transferred to revenue	-	(50,000)
	-	-
Library Grants		
Balance unspent at beginning of year	457,797	-
Current-year receipts	2,700,000	2,592,000
Conditions met - transferred to revenue	(2,004,529)	(2,134,203)
Less expenditure for rolled over funds	(457,797)	-
	695,471	457,797
Museum Grant		
Balance unspent at beginning of year	21,441	-
Current-year receipts	151,000	284,000
Conditions met - transferred to revenue	(151,000)	(262,559)
Less expenditure for rolled over funds	(21,441)	-
	-	21,441
Cyber Cadet Library Grant		
Current-year receipts	252,000	240,000
Conditions met - transferred to revenue	(252,000)	(240,000)
	-	-
EDI Grant		
Balance unspent at beginning of year	55,518	55,518
Conditions met - transferred to revenue	(55,518)	-
	-	55,518
Small Town Rehabilitation Grant		
Balance unspent at beginning of year	454,595	10,563,792
Current-year receipts	7,500,000	11,500,000
Conditions met - transferred to revenue	(6,552,324)	(21,609,197)
Less expenditure for rolled over funds	(454,595)	-
	947,676	454,595
Expanded Public Works Programme Grant		
Balance unspent at beginning of year	-	148,593
Unspent Grant forfeited 2012/2013	-	(148,593)
Current-year receipts	1,376,000	1,000,000
Conditions met - transferred to revenue	(1,376,000)	(1,000,000)
	-	-
Municipal Assistance Programme Grant (MAP)		
Balance unspent at beginning of year	-	426,853
Conditions met - transferred to revenue	-	(426,853)
	-	-

AbaQulusi Local Municipality

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Figures in Rand	2015	2014
23. Government grants and subsidies (continued)		
Scheme Support Grant		
Current-year receipts	350,000	-
Conditions met - transferred to revenue	(13,000)	-
	337,000	-
Cecil EMMET Sports Field (Caretakers)		
Balance unspent at beginning of year	229,300	289,900
Conditions met - transferred to revenue	(121,200)	(60,600)
	108,100	229,300
Cecil Emmet Sports Facilities		
Balance unspent at beginning of year	525,000	525,000
Current-year receipts	1,575,000	-
	2,100,000	525,000
Environmental Health Grant		
Current-year receipts	50,000	-
24. Other income		
Burial fees	152,126	156,880
Encroachment fees	33,838	30,074
Entrance fees	-	16,753
Swimming pool gate fees	5,236	8,204
Klipfontein gate fees	41,382	74,621
Advert/Signs fees	6,315	5,449
IEC Election income	1,810	11,600
Lost book charges	2,667	4,518
Membership fees	6,079	6,317
Monument erection	25,124	30,218
Park fees	1,836	18,131
Photostat copies	22,654	23,643
Plan fees	27,050	115,910
Rates clearances	62,700	63,373
Rezoning	51,836	-
SETA	247,912	184,292
Special consent	46,610	35,681
Sundry income	15,583	373,733
Proceeds on disposal of assets	659,845	-
Tender deposits	253,207	121,459
Bad debts recovered	11,074	-
Stock write up	-	395,728
Building permits	2,056	44
Business licence	5,000	3,333
Donation income	26,316	-
Valuation certificate	116	149
Settlement Discount	42,657	-
	1,751,029	1,680,110

AbaQulusi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
25. General expenses		
Advertising	490,000	573,725
Allowance & contributions pensioners	1,769,580	1,375,808
Auditors remuneration	5,233,578	2,482,099
Bank charges	1,253,738	1,221,028
Cleaning materials	373,694	291,075
Commission on vendor sales	1,020,166	904,169
Compensation commission	486,441	-
Legal expenses	1,521,571	672,352
Disaster relief	304,176	118,276
Entertainment	147,439	223,202
Electricity & Water services	7,298,650	7,537,839
Indigent burials	228,024	265,676
Insurance	813,885	696,012
Council community projects	1,342,285	744,353
Conferences and seminars	72,186	53,133
Minor equipment	181,058	235,117
Prayer day	10,948	39,955
SDL Levies	1,167,684	980,927
Strategic planning	137,428	40,660
Fuel and oil	4,426,272	4,498,767
Point duty at schools	3,919	3,840
Postage and courier	767,397	685,700
Printing and stationery	1,180,613	1,018,624
Professional fees	509,944	641,581
Pension expenditure employee benefits	120,409	233,693
Sports and comm services functions	1,188,340	1,199,887
Wellness program	27,615	13,040
Membership fees	1,272,526	1,071,258
Telephone and fax	1,142,065	1,248,410
Training	888,775	567,665
Travel and subsistence	1,907,560	2,104,190
Title deed search fees	27,866	89,248
Tourism development	150	2,474
First aid suppliers	965	7,941
Ward committee members allowance	2,610,000	2,584,000
Chemicals	2,236,391	1,076,523
Budget roadshows	812,118	936,193
Other expenses	5,049,229	1,171,515
	48,024,685	37,609,955
26. Employee related costs		
Employee related costs- Salaries and Wages	76,377,407	56,499,290
Performance and other bonuses	4,810,318	4,590,229
Employee related costs-Contributons for UIF, Pensions and Medical aids	18,308,383	17,052,812
Leave pay provision charge	2,304,321	2,297,781
Travel, motor car, accommodation, subsistence and other allowances	6,288,108	5,808,516
Overtime payments	12,347,529	8,995,516
Long-service awards	31,506	28,673
Housing benefits and allowances	249,636	257,718
Other employee related costs	2,055,368	8,080,383
	122,772,576	103,610,918

AbaQulusi Local Municipality

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26. Employee related costs (continued)

Remuneration of municipal manager

Annual Remuneration	-	828,503
Car Allowance	-	20,000
	-	848,503

Subsistence and travelling is carried under general expenses.

For the 30 June 2015 annual financial year, the municipality functioned without a municipal manager. Director Corporate acted as Municipal Manager for the period November 2014 to March 2014. Prior and subsequent to the Director Corporate acting as Municipal Manager an acting Municipal Manager from COGTA was seconded to fill the position..

Remuneration of chief finance officer

Annual Remuneration	843,233	1,171,747
Car Allowance	154,851	16,500
Cell Allowance	6,000	-
	1,004,084	1,188,247

Subsistence and travelling is carried under general expenses

Remuneration director technical

Annual Remuneration	993,000	933,267
Car Allowance	-	15,000
	993,000	948,267

Subsistence and travelling is carried under general expenses.
Car Allowance discontinued.

Remuneration director corporate

Annual Remuneration	993,000	898,182
Car Allowance	-	15,000
Acting Allowance	49,440	-
	1,042,440	913,182

Subsistence and travelling is carried under general expenses.
Car Allowance discontinued.

Remuneration director community

Annual Remuneration	993,000	946,447
Car Allowance	-	15,000
	993,000	961,447

Subsistence and travelling is carried under general expenses.
Car Allowance discontinued.

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Figures in Rand	2015	2014
26. Employee related costs (continued)		
Remuneration director planning & development		
Annual Remuneration	67,000	937,230
Car Allowance	37,868	13,500
Housing Allowance	36,604	-
Cellphone Allowance	10,000	-
	151,472	950,730
Subsistence and travelling is carried under general expenses		
27. Remuneration of councillors		
Mayor	770,497	726,182
Deputy Mayor	476,483	584,432
Executive Committee Members	4,379,633	4,259,673
Speaker	662,991	582,453
Councillors	7,592,164	7,026,017
Councillors travel allowance	131,473	85,585
Councillors cell allowance	805,405	716,772
	14,818,646	13,981,114
In-kind benefits		
The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time employees. The Mayor, Deputy Mayor and Speaker are each provided with an office and secretarial support at the cost of the Municipality. The Executive Committee members are provided with an office only.		
The Mayor has use of a Council owned vehicle for official duties.		
The Mayor, deputy mayor and the speaker each has a full-time bodyguard and a driver.		
28. Debt impairment		
Contributions to debt impairment provision	11,891,865	7,128,490
29. Investment revenue		
Interest revenue		
Investments	3,150,190	4,369,190
30. Depreciation and amortisation		
Property, plant and equipment	82,094,694	97,670,704
Intangible assets	110,360	157,038
	82,205,054	97,827,742
31. Impairment of assets		
Impairments		
Property, plant and equipment	1,203,071	-
32. Finance costs		
Finance leases	457,972	671,061

AbaQulusi Local Municipality

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Figures in Rand	2015	2014
32. Finance costs (continued)		
The interest expense on finance leases has been calculated at an effective interest rate of 8% on the present value of the minimum lease payments.		
33. Auditors' remuneration		
Internal Audit	1,205,663	325,700
External Audit	2,065,871	2,008,329
Audit Committee Members	179,940	148,069
Forensic Audit	1,782,103	-
	5,233,577	2,482,098
34. Rental of facilities and equipment		
Facilities and equipment		
Rental of facilities	163,451	136,275
Rental income	1,133,880	1,052,454
	1,297,331	1,188,729
35. Grants and subsidies paid		
Other subsidies		
Grants Expenditure	33,794,048	33,644,395
Provincial Housing Grant	88,730	-
Grant Aid	4,839	68,190
SPCA Grant	90,780	85,000
	33,978,397	33,797,585
36. Bulk purchases		
Electricity	129,184,533	122,108,105
37. Cash generated from operations		
(Deficit) surplus	(78,064,714)	22,197,526
Adjustments for:		
Depreciation and amortisation	82,205,053	88,654,874
Loss (Profit) on sale of assets and liabilities	659,845	293,804
Provision for post employee benefits	25,795,790	-
Provision for doubtful debt	11,891,865	7,128,490
Land Provision	2,510,591	3,202,424
Fair value gain	(2,156,501)	(129,024)
Traffic revenue accounted on accrual basis	(3,592,894)	(9,374,998)
Actuarial Gain	-	(10,607,911)
Impairment	1,203,071	-
Changes in working capital:		
Inventories	2,489,192	16,853
Receivables from non-exchange transactions	(10,078,777)	(17,896,732)
Receivables for exchange transactions	(9,294,417)	(4,117,776)
Other liability - Eskom	-	(1,381,340)
Payables from exchange transactions	25,246,559	(15,522,143)
Vat receivables	(355,352)	(10,439,061)
Unspent conditional grants and receipts	(1,065,605)	(27,194,901)
Consumer deposits	202,097	554,481
	47,595,803	25,384,566

AbaQulusi Local Municipality

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38. Distribution losses

The actual loss in distribution water cannot be determined in view of the fact that eMondlo consumers are not billed. The difference between water purified and sold can therefore not be regarded as lost in distribution, seeing that a large percentage of it is not metered.

Electricity

Number of consumers (Residential & Commercial)	19,840	19,820
Units purchased	161,832,199	157,723,455
Units sold (Total)	112,544,498	125,454,004
Units lost in Distribution	49,287,701	32,269,451
% Lost in distribution	30.46%	20.46%
Total Costs (Expenses)	129,184,533	122,108,105
Cost per unit purchased.	0.78	0.77
TOTAL COST LOST THROUGH DISTRIBUTION	38,444,407	24,982,724

Water

Number of consumers	10,147	10,149
Kilolitres purified	9,765,833	10,024,530
Kilolitres sold (Total)	3,645,402	3,981,547
Kilolitres lost in distribution	5,669,295	5,209,066
% Lost in distribution	46%	42%
Total Cost (Expense) - Calculated on weighted average	11,668,418	9,344,043
Cost per kilolitre purified	0.98	0.98
TOTAL COST LOST THROUGH DISTRIBUTION	5,569,038	5,116,948

39. Water Inventory

Water Inventory	Rand Value of Inventory 2015	Rand value of Inventory 2014
Opening Balance	7,066,261	7,247,581
Purified	9,593,131	9,847,253
Less sold	(3,580,936)	(3,911,136)
Less loss through purification 10%	(959,313)	(984,725)
Less sold to indigent	(12,539)	(15,764)
Loss through distribution	(5,569,038)	(5,116,948)
Closing Balance	6,537,566	7,066,261

AbaQulusi Local Municipality

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40. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	58,505,409	34,178,252
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Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	-	51,800,000
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This expenditure relates to Property, plant and equipment will be financed from Government Grants.

Operational Contracted Expenditure

Minimum lease payments due

- within one year	45,154,667	27,551,730
- in second to fifth year inclusive	52,176,628	20,825,087
	97,331,295	48,376,817

AbaQulusi Local Municipality

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41. Contingencies

Legal letters were sent to the Municipalities attorneys in order to obtain details of potential claims against the municipality. Responses were received back from B.M Thusini Attorneys and Cox & Partners. The details of the claimant and an estimation of the potential claim is detailed below. As at the end of the financial year the municipality had the following litigation matters outstanding:

African Oxygen Ltd	8,000	8,000
Martin and Mathinius Pretorius	400,000	400,000
Martin and Mathinius Pretorius	100,000	100,000
Isithwalwandew Projects	-	700,000
51 employees	50,000	50,000
Appeals Board	150,000	150,000
Eric Maphiri	50,000	50,000
KwaZulu Infra	-	2,000,000
IFP & Mthembu	-	100,000
Mrs Martha Laas	200,000	200,000
Johannes C. Van der Colf	80,000	80,000
Afriforum	25,000	25,000
Noord Vrystaat Graan & Vee	100,000	100,000
Itramas	500,000	500,000
Nashay Singh	550,000	550,000
Tender documents relating to reading of meters	37,747	37,747
MEC, IFP and others (legal fees)	-	200,000
JD Hoffman (legal fees and damage)	145,301	145,301
Metgovis Pty Ltd (legal fees and damages)	105,873	105,873
SA local authorities pension fund (legal fees and damages)	431,980	431,980
Dumani Projects Pty Ltd (legal fees and damages)	342,545	342,545
Claveshay Estates	-	36,246
High Court Case no, 3265/2009 Edcon Ltd and Worley and Parsons RSA (legal fees plus damages)	6,157,101	6,157,101
Quantum Leap Investments	-	5,904
TZ 98 illegal occupation of ERF 561	56,558	56,558
T423 Non - responsive client	5,154	5,154
Petroleum Pty Ltd	3,000	2,000
FJ Bender	71,917	-
MP Mdletshe	13,260	-
Hofman	193,795	-
Dumani Projects	282,544	-
Metgovis	64,772	-
Edcon	6,169,591	-
Graceland Investments	48,720	-
MI Sangweni	137,388	-
	16,480,246	12,539,409

AbaQulusi Local Municipality

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42. Prior period errors

The aggregate effect of the prior year adjustments in the annual financial statements for the period ended 30 June 2015 is as follows:

During the financial year 2014/2015 the following prior period errors were identified and corrected. These corrections were made to correctly reflect the comparative figures for the 2013/2014 financial year. The table below outlines the reasons for the necessary adjustments:

1. Inventory – A stock count was performed during the year and obsolete stock was identified and written off. These write-offs related to the 2013/2014 Inventory balance.
2. Receivable from non-exchange transactions – Insurance claims detailed as receivables in the 2013/2014 was refuted or not honoured by the insurance company. Therefore the correction to the receivables balance was made.
3. Receivable from exchange transactions – Individual debtor balances was adjusted automatically by the system.
4. Heritage Assets – During the physical verification process certain heritage assets weren't included in the Fixed Assets Register for the 2013/2014 financial year. The Fixed assets register and Asset Balance in the AFS 2013/2-14 was then retrospectively adjusted.
5. Investment Property – The incorrect growth factor was applied during the valuation of Investment Property in the 2013/2014 Financial Year. Therefore the correction was applied retrospectively.
6. Property Plant and Equipment – During the physical verification process certain assets relating to roads, buildings, water assets, land and landfill weren't included in the FAR. The Fixed assets register and Asset Balance in the AFS 2013/2-14 was then retrospectively adjusted to account for the costs and depreciation.
7. Payables from exchange transactions – Accruals for projects for the period 2013/2014 was not raised.

Inventory	2014	Total
Balance as previously reported	6,965,026	6,965,026
Stock adjustment R & G - Obsolete	(149,279)	(149,279)
Stock Adjustment Electricity - Obsolete	572,646	572,646
Water inventory	7,066,261	7,066,261
Stock Adjustment Water - Obsolete	(22,530)	(22,530)
Restated balance as at 30 June 2014	14,432,124	14,432,124

Receivables from non-exchange transactions	2014	Total
Balance as previously reported	42,171,332	42,171,332
Insurance Debtor - claims refuted	(201,003)	(201,003)
Restated balance as at 30 June 2014	41,970,329	41,970,329

Receivables from exchange transactions	2014	Total
Balance as previously reported	24,871,229	24,871,229
Billing Adjustments - System Generated	(1,553,458)	(1,553,458)
Restated balance as at 30 June 2014	23,317,771	23,317,771

Heritage Assets	2014	Total
Balance as previously reported	3,073,654	3,073,654
Account for heritage asset items which were previously not included in the heritage asset register	780,917	780,917
Restated balance as at 30 June 2014	3,854,571	3,854,571

Investment Property	2014	Total
Balance as previously reported	13,903,205	13,903,205
Correction of the fair value gain on investment property	9,330,035	9,330,035

AbaQulusi Local Municipality

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42. Prior period errors (continued)

Restated balance as at 30 June 2014 **23,233,240** **23,233,240**

Property Plant and Equipment	2014	Total
Balance as previously reported	2,027,142,743	2,027,142,743
Prior period correction to roads	(516,499,015)	(516,499,015)
Prior period correction to water assets	1,349,388	1,349,388
Depreciation: Office Machine 2014 not recorded and overstated	(100,218)	(100,218)
Prior period correction to road asset additions during 2014	21,264,596	21,264,596
Prior year capitalisations from WIP	(21,264,596)	(21,264,596)
Depreciation on prior year additions	(394,958)	(394,958)
Correction to WIP prior year expenditure	1,300,699	1,300,699
Correction to 2014 depreciation and accumulated depreciation	133,797	133,797
Removal of building from FAR	(69,260)	(69,260)
Land previously excluded from FAR	5,025,000	5,025,000
Landfill Site Restoration	47,213,757	47,213,757
Accumulated depreciation: Other property solid waste (Landfill Sites)	(23,606,879)	(23,606,879)
Restated balance as at 30 June 2014	1,541,495,054	1,541,495,054

Payables from exchange transactions	2014	Total
Balance as previously reported	36,785,201	36,785,201
Accrual for expenditure for projects completed in the prior year	1,300,687	1,300,687
Credit Notes - System generated to correct creditors age analysis 2014/2015	(59,656)	(59,656)
Restated balance as at 30 June 2014	38,026,232	38,026,232

Accumulated Surplus	2014	Total
Balance as previously reported	(2,018,567,213)	(2,018,567,213)
Insurance debtor - claims refuted	201,003	201,003
Credit notes - systems generated to correct creditors age analysis 2014/2015	(59,655)	(59,655)
Stock adjustments	(400,837)	(400,837)
Billing adjustments - system generated	1,553,458	1,553,458
Prior period correction to roads	516,499,015	516,499,015
Prior period correction to water assets	(1,349,388)	(1,349,388)
Depreciation: Office machine 2014 not recorded and overstated	100,218	100,218
Prior period correction to road asset additions during 2014	(21,264,596)	(21,264,596)
Prior year capitalisation from WIP	21,264,596	21,264,596
Depreciation on prior year additions	394,958	394,958
Correction to WIP prior year expenditure	(1,300,699)	(1,300,699)
Correction to 2014 depreciation and accumulated depreciation	(133,797)	(133,797)
Removal of building from FAR	69,260	69,260
Accrual for expenditure for projects completed in the prior year	1,300,687	1,300,687
Land previously excluded from FAR	(5,025,000)	(5,025,000)
Land Site Restoration Costs	(47,213,757)	(47,213,757)
Water Inventory	(7,066,261)	(7,066,261)
Correction of the fair value gain on investment property	(9,330,035)	(9,330,035)
Account for heritage asset items which were previously not included in the heritage asset register	(780,917)	(780,917)
Accumulated depreciation: Other property solid waste (Landfill Sites)	23,606,879	23,606,879
Restated balance as at 30 June 2014	(1,547,502,081)	(1,547,502,081)

AbaQulusi Local Municipality

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43. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate, utilised borrowing facilities are monitored. The liquidity ratio is outlined below:

Financial instruments		
Current Assets	137,344,791	136,274,157
Current Liabilities	85,857,942	63,404,228

Liquidity ratio	1.60 : 1	2.15 : 1
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Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At 30 June 2015, financial instruments exposed to interest rate risk were call and notice deposits.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis in terms of council policy. Sales to consumer customers are settled in cash. The Municipality's exposure to credit risk is indicated below.

	2015	2014
Cash and Cash Equivalents	36,636,073	53,151,479
Receivables from non-exchange transactions	52,049,106	41,970,329
Receivables from exchange transactions	32,612,188	23,317,771

44. Going concern

The municipality has experienced a loss of revenue due to significant electricity and water losses and a high rate of non-payment of debtors. The municipality has sufficient cash flow for 1 month and not the required 3 months. These conditions indicate the existence of a material uncertainty that casts significant doubt on the municipality's ability to operate as a going concern in the foreseeable future. Management have prepared a financial viability strategy with the intention of enforcing more stringent protocols to enhance debt collection, and spending in accordance with the municipal budget. Even though the Municipality receives continued grant funding from National Treasury for operations in the form of the Equitable Share, the contracting of Bigen Africa – Debt Collectors as of the 01 July 2015, has already yielded a 108% collection rate since October 2015.

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45. Unauthorised expenditure		
Opening Balance	50,261,870	32,191,255
Retention held inclusive of VAT	-	184,512
Offset against balance MIG	-	(100,834)
Over expenditure INEG (See note below)	-	5,767,661
Written off by council	(50,261,870)	(5,851,339)
Overspending of the total approved budget	-	18,070,615
Thusong Centre	1,106,090	-
Unauthorised expenditure - non cash items	69,276,869	-
	70,382,959	50,261,870

The expenditure incurred will be tabled to council for condoning. The over expenditure on the Thusong Centre was incurred with the understanding that the over-expenditure would be funded from the grant allocation 2015/2016. The expenditure will be investigated and a report will be tabled to council.

Unauthorised expenditure for non-cash items relate to depreciation on assets, provisions for doubtful debts, provision for employee benefits and impairment losses.

46. Fruitless and wasteful expenditure

Opening Balance	9,314	9,314
Penalties SARS	484,288	203,273
Interest Eskom	78,218	17,681
Written off by Council	-	(220,954)
	571,820	9,314

The total fruitless and wasteful expenditure was investigated and a report will be tabled to council and national treasury for approval.

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47. Irregular expenditure		
Opening balance	-	851,084
Add: Irregular Expenditure - current year		-
AP Shangase and Associates	-	63,138
Afrox	-	23,461
Bonakude Consulting	-	1,312,108
Chris Vermaak	218,911	223,886
G4S Cash Solutions (SA) (Pty) Ltd	194,878	303,555
Inqolobane Civils	-	56,340
KD Electrical	224,648	196,811
Kuntwela Enzansi Ventures CC	914,241	1,408,762
Lasercom	482,399	705,388
Link Up Security	316,760	626,932
Municipal Incorp	766,554	1,580,961
MWEB Connect (Pty) Ltd	20,055	86,905
OTIS (Proprietary) Limited	11,217	15,807
SABC Group Sales and Marketing	25,240	145,555
Samkelintoko CC	224,640	143,804
Shalom Security Services	44,676	96,798
Steiner Hygiene Express	61,744	105,854
Time Freight Express	49,894	80,935
Winded	28,925	39,871
WSSA	81,015	426,372
Zululand Funerals CC	144,490	266,470
Impilo Enterprises	-	2,375,685
Siyeza Concept	-	435,035
Gold Market	-	297,714
Blue Seal Engineering	-	2,975
Geeks on Wheels	-	2,980
Vinko Enterprises	-	2,982
Geeanem Outsourcing Services	-	7,068
Alpha Super Lube CC	-	9,804
Abaqulusi Superspar	-	9,807
Kusasa Commodities 330 (Pty) Ltd T/A GR Solutions	-	28,003
Goldmarket HC 16609	-	29,714
Hosanna Entertainment	-	10,000
Mkhawuzi Trading CC	-	36,400
Rise Again Fire Equipment	-	59,180
Beka Pty Ltd	-	58,349
Ace Hardware	-	75,151
Silversolutions 2259	-	119,200
Zamadlomo Construction	-	57,873
Sparrow Computers	-	58,240
Zero to Hero Trading	-	16,500
BJM Plant Hire	1,916,163	-
Advertised less than 14 days	4,838,299	-
Kwikspace(lack of planning)	221,779	-
Over expenditure(Contract management)	3,788,964	-
Msuftu	8,380,635	-
CAATS data(declarations of interest)	12,000	-
VQS Transport	258,552	-
Ceewai Trading	198,000	-
Written off by Council	-	(8,760,797)
	23,424,679	3,692,660

The expenditure will be investigated and a report will be tabled to council.

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48. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

Goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Supply Chain Management Deviations more than R200 000

Kwikspace Modular Building: Electricity direct replacement of capital items	221,779	-
Sizani Electrical: Mini Substation 315	207,851	-
Neo Solution Pty Ltd: Hire of Equipment, Lease of Vehicles	263,124	-
Impilo Enterprise: Hiring of 2 Motor Graders for the period of 6 months	1,213,470	-
Msuftu Transport: Supplying water to eMondlo areas	330,507	-
Msuftu Transport: Supplying water to Abaqulusi areas	399,693	-
Msuftu Transport: Supplying water to eMondlo areas	312,996	-
Msuftu Transport: Supplying water to Abaqulusi Municipality areas	338,336	-
Msuftu Transport Supplying water to Abaqulusi areas	237,651	-
Msuftu Transport Supplying water to Abaqulusi areas	226,137	-
CDM Indoor Range: Safeguarding all substations and pumpstations	405,384	-
Msuftu Transport: Delivery of water at Emondlo Residents	3,590,329	-
Quiet Storm Trading: Saw cutting of Asphalt, supplying and compacting of G2 crushed stones and asphlating	681,172	-
Msuftu Transport: Delivery of water at eMondlo	2,439,296	-
BJM Plant Hire Cc: Hiring of Excavator and TL B	226,353	-
BJM Plant Hire CC: Hiring of D7 Bulldozer	428,924	-
BJM Plant Hire CC: Hiring of D7 Bulldozer, CX210 Excavator, 10M Tippers and TLB	797,818	-
BJM Plant Hire CC: Hiring of Bulldozer	248,606	-
Siyeza Concept Advertising: Supplying of sporting gear for the Mayoral Cup.	-	435,040
ESRI South Africa: GIS Software	-	530,442
Impilo Enterprises: Hiring of two motor graders for the period of 18 months	-	2,375,687
Phinda Projects cc: Electrification of Vrede and Clifdale	-	2,184,690
NOSA	-	371,088
	12,569,426	5,896,947

Supply Chain Management Deviations less than R200 000

Various deviations less than R200 000	3,613,301	3,751,921
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49. Related party disclosure

During the current financial there were no related party transactions identified. The details of prior year related party transactaions have been included below for comparability

Thandazile P Mayise	-	18,751,584
Wife to member of Dolphin Coast is an administration assistant at Ilembe Municipality		
Hosana Entertainment	12,000	-
Employed by the municipality		
Winile Mntungwa	-	34,505
Wife to member of Sengikhona Solutions CC, works at Ethekwini Municipality		

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50. Contracted Services		
Meter Reading	2,653,242	2,685,579
Compter Services	829,133	1,586,386
Other Financial Services	4,638,206	1,882,357
Parks	6,070,404	5,760,331
Security	10,573,534	10,656,795
Refuse Removal	10,227,244	9,052,271
Steiner	80,202	92,854
Digging of graves	-	55,051
Engineer	-	168,877
Water Purification	6,280,331	225,625
Bonakude	-	46,275
Garden Equipment	-	15,440
Mayoral Cup	-	84,900
Engoje Hub Launch	-	32,850
Zululand Funerals	228,024	14,070
Portitrim	-	3,540
Weiss HR - Land Surveyor	-	11,000
Samro	-	10,590
Athletes food SALGA Games	-	5,683
Contour	434,436	6,821
Ameu	-	4,965
Lasercom	656,251	55,145
Nurses working with traffic	10,050	2,850
Brandfin Trade CC	113,460	147,498
Ado Research Labs	216,444	-
Mamelang Technology	104,568	-
Neo Solution (Pty) Ltd	230,811	-
Isiphiwo Transport	8,000	-
Total Client Services	69,964	60,000
	43,424,304	32,667,753

51. Additional Note in terms of Municipal Finance Management Act

Contributions to organised local government

Council subscriptions	1,188,840	997,038
Amount paid current year.	(1,188,840)	(997,038)

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51. Additional Note in terms of Municipal Finance Management Act (continued)

51.1 PAYE and UIF

Current year payroll deductions	20,425,265	15,635,044
Amount paid-current year	(20,425,265)	(15,635,044)

51.2 Pension and medical aid deduction

Current year payroll deductions and council contributions	8,232,638	23,221,979
Amount paid-current year	(8,232,638)	(23,221,979)

51.3 Councillor's arrear consumer accounts June 2015

	Outstanding less than 90 days	Outstanding more than 90 days	Total
M M Mavuso	234	-	234
S E Qwabe	1,220	-	1,220
P P Mkhwanazi	63	803	866
A D Mkhulise	241	-	241
M M Kunene	355	-	355
M P Williams	749	-	749
D J Mahlase	226	-	226
D P Mazibuko	1,366	1,715	3,082
D P Kunene	317	-	317
	4,771	2,518	7,290

51.3 Councillor's arrear consumer accounts June 2014

	Outstanding less than 90 days	Outstanding more than 90 days	Total
M Dlamini	2,213	795	3,008
M S Ntshangase	835	281	1,116
P P Mkhwanazi	45	641	686
M Mdlalose	727	24	751
M Hadebe	541	2,686	3,227
	4,361	4,427	8,788

51.4 VAT

Vat Receivable	3,047,101	3,402,453	Total 6,449,554
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52. Provision for doubtful debts

For receivables from exchange transactions	6,923,895	2,136,837
For receivables from non-exchange transactions	4,903,686	4,991,653
	11,827,581	7,128,490

53. Interest earned - outstanding debtors

Current Year	15,804	5,420
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AbaQulusi Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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54. Reasons for differences identified in the Statement of Comparison of Budget and Actual

54.1 The decrease in revenue is due the municipality providing Free Basic Services amounting to R 12,500,000 million, and reversal of services on Municipal owned property. In terms of budgeting purposes increase in Revenue from Services Charges is calculated on the expected gross revenue, irrespective if the consumer is indigent or similarly cannot pay.

54.2 The increase is due to the implementation of GRAP 102 standard for Heritage Assets, and the revaluation of certain Investment Property amounting to R 778,667 and R158,736 respectively.

54.3 The decrease in revenue is due to the municipality anticipating to collect R6,000,000 from Zululand District Municipality in respect of water services provided.

54.4 The increase in revenue is due to interest earned on the municipality's current bank account.

54.5 The decrease in revenue is due to the devaluation of properties amounting of R77 million.

54.6 The increase in revenue is due to roll-over grants from 2013/2014 being utilized.

54.7 The increase in revenue is due to the accounting treatment for Traffic fines on the accrual basis as per IGRAP 1 Standard.

54.8 The increase in personnel cost is due to the provision for leave pay calculation.

54.9 The decrease in councillor remuneration is due to the Deputy Mayor and 1 EXCO being appointed in October 2014. Whilst, 2 new councillors were appointed in October 14, and 1 ordinary councillor and 1 EXCO Member were terminated 1 July 2014.

54.10 The increase is due to the additions of Infrastructure Assets.

54.11 The increase in provision is for Traffic Fines in terms of IGRAP 1 and Service Charges.

54.12 The decrease is due to the capitalization of expenditure to Fixed Assets, for repairs that add significant improvements to an asset.

54.13 The increase is due to the increased number of security guards, additional refuse removal areas and water tankers.